

Message Text

UNCLASSIFIED

PAGE 01 BERN 04386 01 OF 02 221112Z

ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 /107 W

-----077220 221135Z /11

R 221029Z SEP 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4955

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

/AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 4386

USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK OF SEP 11-17

1. SUMMARY: SWISS FRANC SHOWED STRENGTH IN CLAM
MARKET. GOLD PRICE ROSE. STOCK PRICES REMAINED
HIGH. SWISS BANKERS DISCUSSED BEST INVESTMENT PROSPECTS.
SWISS NATIONAL BANK PRESIDENT URGED BANKS TO STRESS
QUALITY OVER EXPANSION. POLL RESULTS INDICATE SWISS
PUBLIC PLACES MOST CONFIDENCE IN BANKING SECTOR.
NATIONAL CONSULTATIONS BEGAN TO REVIEW ADMINISTRATIVE
JURISDICTION AND FINANCIAL CONSIDERATIONS OF FEDERAL,
CANTONAL AND MUNICIPAL GOVTS. VORORT (SWISS UNION
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 04386 01 OF 02 221112Z

OF COMMERCE AND INDUSTRY) PRESIDENT CALLED FOR RE-
EXAMINATION OF GOVERNMENTAL TASKS. END SUMMARY

2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE AGAINST
SWISS FRANC FLUCTUATIONS SHOWED SLIGHT DOWNWARD
TENDENCY IN CALM MARKET, DESPITE BRIEF UPWARD MOVEMENT
FOLLOWING REPORTS OF INCREASED AUG RETAIL

SALES AND HIGHER PRIME RATE IN US. DM SHOWED SIMILAR TREND DESPITE ANNOUNCEMENT OF MEASURES TO STIMULATE WEST GERMAN ECONOMY. GOLD PRICE ROSE TO 148 IN CLAM AND STABLE MARKET. DEALERS ATTRIBUTED DECREASED MARKET ACTIVITY IN PART TO MOSLEM RAMADAN AND JEWISH NEW YEAR. ON OFFER SIDE, DEALERS SAID SOUTH AFRICAN PRODUCTION WAS STILL MODERATELY DECREASED AND SOVIETS WERE SELLING SMALL AMOUNTS SPORADICALLY, WHILE PERU WAS REPORTED TO HAVE DECREASED ITS OFFER ON LONDON MARKET. DEALERS EXPECTED GOLD PRICE TO STABILIZE AT 150 IN ABSENCE OF OFFSETTING FACTORS ON US MARKET. RATES FOLLOW:

ITEM/9-12 (OPEN)/9-16 (CLOSE)
FORWARD DISCOUNTS (PERCENT PER ANNUM)
ONE MONTH/4.27/3.92
TWO MONTHS/4.02/4.02
THREE MONTHS/3.95/3.88
SIX MONTHS/3.66/3.64
TWELVE MONTHS/3.49/3.54
SF/DM/102.42/102.40
GOLD/147.75/148.00

3. CAPITAL AND MONEY MARKETS: STOCK PRICES CONTINUED GENERAL UPWARD TREND DESPITE SOME PROFIT TAKING. SKA INDEX ROSE 0.3 PERCENT TO 140.5 HIGH FOR 1977.
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BERN 04386 01 OF 02 221112Z

AVERAGE YIELD CONFEDERATION BONDS WAS STABLE AT 4.00. GOVT COMMISSION APPROVED PUBLIC LOAN ISSUE SCHEDULE BY DOMESTIC BORROWERS IN FOURTH QTR AMOUNTING TO SF 1.4 BILLION COMPARED TO SF 1.6 BILLION IN FOURTH QTR 1976. THREE LARGEST BANKS WILL BORROW SF 100 MILLION EACH. LOAN ISSUES DURING JUL AND AUG 1977 CAME TO SF 1.4 BILLION, COMPARED TO SF 1.6 BILLION IN SAME PERIOD 1976. BANKS REPORTED RECORD TOTAL SF 2 BILLION IN EARLY LOAN REPAYMENTS BY FOREIGN AND DOMESTIC BORROWERS DURING FIRST HALF 1977, TRIPLE THE AMOUNT IN FIRST HALF 1976. THIS BROUGHT NET DEMAND ON SWISS CAPITAL MARKET TO SF 2.4 BILLION IN FIRST HALF 1977, LOWEST SINCE FIRST HALF 1970. BANKS EXPECT INTEREST RATES TO FALL TO 4 PERCENT. INTEREST RATES ARE EXPECTED TO SHOW LITTLE IF ANY UPWARD MOVEMENT BY END 1977 DESPITE SLIGHT INCREASE IN BUSINESS DEMAND FOR LOANS AND CONTINUED ACTIVITY BY FOREIGN BORROWERS ON SWISS MARKET. BANKS EXPECT INCREASED SALES OF THEIR CASH BONDS WHICH PROVIDE INVESTORS MORE FLEXIBILITY THAN LONG-TERM FIXED INTEREST SECURITIES.

4. BANKERS' VIEWS: INSTITUTE FOR CAPITAL INVESTMENTS
HELD SECOND INTL INVESTMENT SYMPOSIUM. UNION
BANK OF SWITZERLAND PRESIDENT PHILIPPE DE WECK
STRESSED THAT SWISS BANKS HAVE INCREASED INTL
ACTIVITIES AS LEADERS IN CONSORTIUM FINANCING OF
LOANS AND INVESTMENTS. HE PREDICTED NO CHANGE
IN SWISS BANKING STRUCTURE BUT EXPECTED SOMEWHAT
LOWER OVERALL EXPANSION FOR BANKS COMPARED TO RECENT
YEARS. CREDIT SUISSE GEN MANAGER RAINER GUT
RECOMMENDED INVESTMENT PORTFOLIOS CONCENTRATE 40
TO 50 PERCENT ON NORTH AMERICA (INCLUDING CANADA)
BECAUSE LOWER DOLLAR EXCHANGE RATE PRESENTS INVESTORS
BROAD SELECTION OF RELATIVELY LOW-PRICED SHARES ON

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BERN 04386 02 OF 02 221131Z
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-05 CEA-01 /107 W

-----077500 221134Z /11

R 221029Z SEP 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 4956
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
/AMCONSUL ZURICH

UNCLAS SECTION 2 OF 2 BERN 4386

USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

US STOCK MARKET AND US ECONOMIC OUTLOOK IS
FAVORABLE. DR VONTOBEL (VONTOBEL BANK) WARNED
ABOUT CURRENCY RISKS AND LACK OF TRANSPARENCY ON
EURO-MARKETS, E.G., SECONDARY MARKET CONTROLLED
BY 400 BANKS, AND RECOMMENDED INVESTMENT IN
EURO-BONDS TO MINIMIZE RISKS. DR GISLER, INSTITUTE

DIR, ADVISED BUSINESSMEN TO BE ALERT TO OPPORTUNITIES FOR BARTER DEALS WITH EAST EUROPEAN COUNTRIES. SWISS BANK CORP PRES SCHMITZ STRESSED STRONG POINTS OF SWISS ECONOMY BUT SAID CONTINUED REDIMENSIONING REQUIRES FLEXIBLE INVESTMENT ATTITUDE AND NOTED THAT PROFITABILITY IS INCREASINGLY IMPORTANT FACTOR FOR SWISS INVESTMENTS COMPARED TO PAST EMPHASIS

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 04386 02 OF 02 221131Z

ON GROWTH.

5. SNB VIEWS: SNB PRES LEUTWILER STRESSED FOLLOWING POINTS ABOUT SWISS BANKING TO VORORT ANNUAL MEETING:

(A) SWISS FRANCE: APPRECIATED FRANC IS ONLY ONE PROBLEM FACING SWISS EXPORT INDUSTRY. SNB IS COOPERATING WITH OTHER CENTRAL BANKS AND SWISS BANKS TO COUNTER EXCESSIVE FOREIGN EXCHANGE FLUCTUATIONS. ONE PRINCIPAL CUSE OF APPRECIATED FRANC IS DIFFERENCE IN SWISS AND FOREIGN INFLATION RATES. GREATER INTL COOPERATION IS REQUIRED TO ENABLE CENTRAL BANKS AGREE ON HARMONIZATION OF MONETARY POLICIES.

(B) BANK CONDUCT: CHIASSO AFFAIR STEMMED FROM EMPHASIS ON EXPANSION BEFORE QUALITY. IN ORDER TO MAINTAIN HIGH QUALITY STANDARDS, INTL BANKING SHOULD NOT BE PERMITTED TO DEVELOP ABNORALLY. ALTHOUGH FOREIGN CRITICISM OF SWISS BANKING IS JUSTIFIED BY ACTIVITIES OF A FEW BANKS, STRICT APPLICATION OF NEW AGREEMENT BETWEEN SNB AND BANKS TO IDENTIFY FOREIGN DEPOSITORS SHOULD SHOW THAT RECEIPT OF FLIGHT CAPITAL IS NOT PRINCIPAL SWISS BANKING ACTIVITY. HOWEVER, BANKS REMAIN RESPONSIBLE FOR THEIR OWN POLICIES.

(C) ECONOMIC IMPLICATIONS: SWISS FINANCIAL SECTOR PLAYS IMPORTANT POSITIVE ROLE FOR SWISS ECONOMY. EXPORT INDUSTRY DRAWS ON EXPERTISE AND CONTACTS OF SWISS BANKS ABROAD. BANKS PLAY IMPORTANT ROLE IN SWISS BALANCE OF PAYMENTS; THEIR AID IN EXPORTING CAPITAL HELPS STABILIZE SWISS FRANC. BANKS ARE EXPENDED TO SEEK ADDITIONAL SOLUTIONS TO SWISS

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BERN 04386 02 OF 02 221131Z

ECONOMIC PROBLEMS AND TO HELP ALL SECTORS DEVELOP HARMONIOUSLY BY STRESSING QUALITY OVER EXPANSION. IT

IS IN SWITZERLAND'S INTEREST TO PARTICIPATE IN INTL
EFFORTS TO AID DEBT PROBLEMS OF DEFICIT BALANCE OF
PAYMENTS COUNTRIES, TO AVOID INTL FINANCIAL CRISIS
AND INCREASED TRADE PROTECTION WHICH COULD BE HARMFUL
TO SWISS ECONOMIC ACTIVITIES.

6. RESULTS OF POLL TAKEN DURING SUMMER 1977 BY
INSTITUTE FOR MARKET AND OPINION RESEARCH OF SAMPLE
1000 PEOPLE INDICATED PUBLIC HAS GREATER CONFIDENCE
IN SWISS BANKS IN GENERAL THAN IN GOVT OR OTHER
ECONOMIC BRANCHES. POLL ASKED "HOW GREAT IS YOUR
CONFIDENCE IN OUR STATE, ECONOMY AND BANKS" WITH
FOLLOWING RESULTS SHOWING PERCENT OF ANSWERS FOR EACH CATEGORY:

CONFIDENCE/STATE/ECONOMY/BANKS

HIGH/32/31/58

MED/54/51/30

LOW/12/15/10

NO IDEA/2/3/2

TOTAL/100/100/100

7. NATIONAL FINANCES: FEDERAL COUNCIL LAUNCHED
NATIONAL CONSULTATIONS AIMED AT DELIMITING ADMINISTRATIVE
RESPONSIBILITIES AND THEIR FINANCING
BETWEEN FEDERAL, CANTONAL AND MUNICIPAL GOVTS.
EVENTUAL AGREEMENT WOULD AIM AT MAINTAINING FEDERAL
SYSTEM WHILE PROMOTING EFFICIENT AND COST EFFECTIVE
GOVT SERVICE. FUNDAMENTAL CONSIDERATION IS ESTABLISHMENT
OF NEW FINANCIAL STRUCTURE TO DETERMINE
RATIONAL DISTRIBUTION OF REVENUES IN ACCORDANCE
WITH JURISDICTIONAL AUTHORITY TO DETERMINE
EXPENDITURES AND ABILITY TO FINANCE THEM. IT IS
SUGGESTED THAT CANTONS BE RELIEVED OF CERTAIN
OBLIGATIONS, E.G., CONTRIBUTIONS TO FEDERAL SOCIAL
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 BERN 04386 02 OF 02 221131Z

PROGRAMS AND EXPENSES FOR NATIONAL HIGHWAYS.
FEDERAL SUBSIDIES WOULD BE REDUCED FOR ACTIVITIES
WHERE CANTONS BEAR GREATEST FINANCIAL AND ADMINISTRATIVE
BURDEN, E., G., EDUCATION, CULTURAL AFFAIRS
AND HEALTH SERVICES. CONSULTATIONS ARE SEEN AS
PART OF GROWING PUBLIC DEBATE ON APPROPRIATE AREAS
OF GOVERNMENTAL ACTIVITY AND THEIR FINANCING.

8. VORORT VIEWS: VORORT PRES VON PLANTA TOLD
MEMBERS THAT STRONG CENTRAL GOVT MUST HAVE NECESSARY
FINANCES TO FULFILL ITS TASKS, BUT STATE MUST HAVE
BALANCED BUDGET. VON PLANTA PRAISED GOVT'S DEFENSE
OF FREE MARKET PRINCIPLES WHILE WORKING IN INTEREST
OF SWISS ECONOMY. HOWEVER, VORORT IS OPPOSED TO

DEFICIT SPENDING IN RECESSION AND REQUIRED BUILD-UP
OF RESERVES IN EXPANSION PERIODS. HE SAID SWISS
ECONOMY'S MOST SERIOUS PROBLEM IS INSUFFICIENT
PROFIT MARGIN. PRESENT SOCIAL AND FISCAL BURDENS ON
PRIVATE ENTERPRISE HAVE REACHED LIMITS BEYOND WHICH
PROFITS ARE THREATENED. THEREFORE, GOVT TAKS SHOULD
BE RE-EXAMINED.

WARNER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN EXCHANGE RATES, FRANC, FINANCIAL MARKETS, BANKERS, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 22-Sep-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BERN04386
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770344-1282
Format: TEL
From: BERN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770935/aaaabdky.tel
Line Count: 286
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b2e37240-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1178702
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL REVIEW: WEEK OF SEP 11-17
TAGS: EFIN, SZ, US
To: STATE USMTN
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/b2e37240-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009